

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Sylvan</u>	County <u>Washtenaw</u>
Audit Date <u>March 31, 2004</u>	Opinion Date <u>May 14, 2004</u>	Date Accountant Report Submitted To State: <u>September 28, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>350 South Main St., Suite 200</u>	City <u>Ann Arbor</u>	State <u>MI</u>	ZIP <u>48104</u>
Accountant Signature 			

Township of Sylvan Washtenaw County, Michigan

**Financial Report
with Additional Information
March 31, 2004**

Township of Sylvan

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Independent Auditor's Report

To the Members of the Township Board
Township of Sylvan
Washtenaw County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Sylvan as of March 31, 2004 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Township of Sylvan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Sylvan as of March 31, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 14, 2004

A member of



A worldwide association of independent accounting firms

Township of Sylvan

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	General	Enterprise - Water and Sewer	Agency
Assets			
Cash (Note 2)	\$ 335,378	\$ -	\$ 1,300,018
Receivables - Taxes	37,778	-	-
Due from other funds	142,788	-	-
Due from other governmental units	37,162	-	-
Deposits and other current assets	-	686,160	-
Restricted assets (Note 5)	-	1,119,947	-
Special assessment receivable	-	8,174,131	-
Land (Note 3)	-	-	-
Buildings (Note 3)	-	-	-
Equipment (Note 3)	-	-	-
Construction in progress (Note 3)	-	13,290,361	-
Amount available in General Fund	-	-	-
Total assets	<u>\$ 553,106</u>	<u>\$ 23,270,599</u>	<u>\$ 1,300,018</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 33,071	\$ -	\$ -
Deposits	36,300	-	-
Retainage payable	-	52,842	-
Accrued interest	-	234,021	-
Deferred revenue	25,812	-	-
Due to other funds	-	-	1,179,473
Due to other governmental units	-	-	120,545
Long-term debt (Note 4)	-	12,100,000	-
Total liabilities	95,183	12,386,863	1,300,018
Fund Equity			
Investment in general fixed assets	-	-	-
Contributed capital	-	9,585,800	-
Retained earnings - Unreserved	-	1,297,936	-
Fund balance - Unreserved:			
Designated for debt administration	80,000	-	-
Undesignated	377,923	-	-
Total fund equity	457,923	10,883,736	-
Total liabilities and fund equity	<u>\$ 553,106</u>	<u>\$ 23,270,599</u>	<u>\$ 1,300,018</u>

Combined Balance Sheet
All Fund Types and Account Groups
March 31, 2004

Account Groups		Total Primary Government (Memorandum Only)	
		March 31	
General Fixed Assets	General Long- term Debt	2004	2003
\$ -	\$ -	\$ 1,635,396	\$ 688,001
-	-	37,778	126,623
-	-	142,788	114,608
-	-	37,162	29,457
-	-	686,160	-
-	-	1,119,947	766,668
-	-	8,174,131	10,125,825
256,405	-	256,405	256,405
764,985	-	764,985	764,985
58,123	-	58,123	59,323
-	-	13,290,361	12,597,107
-	80,000	80,000	272,744
\$ 1,079,513	\$ 80,000	\$ 26,283,236	\$ 25,801,746
\$ -	\$ -	\$ 33,071	\$ 43,031
-	-	36,300	36,000
-	-	52,842	459,729
-	-	234,021	240,271
-	-	25,812	26,355
-	-	1,179,473	114,608
-	-	120,545	124,171
-	80,000	12,180,000	12,772,744
-	80,000	13,862,064	13,816,909
1,079,513	-	1,079,513	1,080,713
-	-	9,585,800	10,289,600
-	-	1,297,936	-
-	-	80,000	272,744
-	-	377,923	341,780
1,079,513	-	12,421,172	11,984,837
\$ 1,079,513	\$ 80,000	\$ 26,283,236	\$ 25,801,746

Township of Sylvan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Fund Type - General Fund Year Ended March 31, 2004

	Year Ended March 31	
	2004	2003
Revenue		
Property taxes	\$ 298,063	\$ 262,069
Administration fee	114,437	117,684
State sources	181,094	195,702
Local sources	6,261	11,445
Charges for services	16,562	38,885
Interest	11,739	10,703
Rent	9,000	9,750
Other	44,385	60,936
Total revenue	681,541	707,174
Expenditures		
Supervisor	24,325	22,293
Treasurer	25,798	25,773
Clerk	25,283	24,706
Trustees	5,100	4,686
Assessor	40,108	38,121
Elections	150	12,058
General services administration:		
Legal	68,483	61,091
Audit and accounting	16,430	17,115
Board of Review	1,385	1,340
Building, grounds, and cemetery maintenance	31,845	39,544
Office expense and miscellaneous	26,720	17,417
Planning, zoning, and engineering fees	122,717	107,728
Fire protection	192,304	141,715
Highways and streets	21,326	9,711
Sanitation	9,839	8,831
Insurance and employee benefits	31,897	18,114
Interest	5,688	16,295
Debt administration	188,744	72,250
Total expenditures	838,142	638,788
Excess of Revenue Over (Under) Expenditures	(156,601)	68,386
Fund Balance - Beginning of year	614,524	546,138
Fund Balance - End of year	<u>\$ 457,923</u>	<u>\$ 614,524</u>

Township of Sylvan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund Year Ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 302,000	\$ 298,063	\$ (3,937)
Administration fee	119,000	114,437	(4,563)
State sources	198,000	181,094	(16,906)
Local sources	6,000	6,261	261
Charges for services	19,800	16,562	(3,238)
Interest	9,400	11,739	2,339
Rent	9,000	9,000	-
Other	30,700	44,385	13,685
Total revenue	693,900	681,541	(12,359)
Expenditures			
Supervisor	26,825	24,325	2,500
Treasurer	26,280	25,798	482
Clerk	25,280	25,283	(3)
Trustees	5,000	5,100	(100)
Assessor	39,750	40,108	(358)
Elections	5,000	150	4,850
General services administration:			
Legal	50,000	68,483	(18,483)
Audit and accounting	20,000	16,430	3,570
Board of Review	3,000	1,385	1,615
Building, grounds, and cemetery maintenance	29,600	31,845	(2,245)
Office expense and miscellaneous	11,850	26,720	(14,870)
Planning, zoning, and engineering fees	86,000	122,717	(36,717)
Fire protection	150,000	192,304	(42,304)
Highways and streets	21,400	21,326	74
Sanitation	5,000	9,839	(4,839)
Insurance and employee benefits	22,200	31,897	(9,697)
Contingencies	45,715	-	45,715
Interest	11,000	5,688	5,312
Debt administration	110,000	188,744	(78,744)
Total expenditures	693,900	838,142	(144,242)
Excess of Expenditures Over Revenue	<u>\$ -</u>	<u>(156,601)</u>	<u>\$ (156,601)</u>
Fund Balance - April 1, 2003		<u>614,524</u>	
Fund Balance - March 31, 2004		<u>\$ 457,923</u>	

Township of Sylvan

Statement of Revenue, Expenses, and Changes in Retained Earnings Enterprise - Water and Sewer Fund Year Ended March 31, 2004

	2004	2003
Nonoperating Revenue		
Water and sewer tap-in fees	\$ 356,000	\$ -
Interest income	<u>941,936</u>	<u>-</u>
Net Income	1,297,936	-
Retained Earnings - Beginning of year	<u>-</u>	<u>-</u>
Retained Earnings - End of year	<u><u>\$ 1,297,936</u></u>	<u><u>\$ -</u></u>

Township of Sylvan

Statement of Cash Flows Enterprise - Water and Sewer Fund Year Ended March 31, 2004

	Year Ended March 31	
	2004	2003
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	\$(1,103,120)	\$ (7,843,864)
Collection of tap-in fees	356,000	-
Principal and interest paid on long-term debt	(969,421)	-
Change in due from other funds	(872,910)	-
Collection of customer assessments	2,069,820	-
Net cash used in financing activities	(519,631)	(7,843,864)
Cash and Cash Equivalents - Beginning of year	<u>602,893</u>	<u>8,446,757</u>
Cash and Cash Equivalents - End of year	<u>\$ 83,262</u>	<u>\$ 602,893</u>
Balance Sheet Classification of Cash and Cash Equivalents -		
Restricted assets (Note 5)	\$ 83,262	\$ 766,668

Noncash Capital and Financing Activities - During the year ended March 31, 2004, the Township created a new special assessment district for the purpose of financing the continued construction of the water and sewer system totaling \$200,200. Also, two of the existing special assessment districts were reduced by a total of \$1,400,000. During the year ended March 31, 2003, two special assessment districts were created totaling \$2,289,600.

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Sylvan (the "Township") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Township is governed by an elected five-member Board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township of Sylvan, Washtenaw County, Michigan. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fund Accounting

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Fund

General Fund - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Fiduciary Fund

Agency Fund - The Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Proprietary Fund

Enterprise Fund - Water and Sewer - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The governmental and fiduciary funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. The related property taxes become a lien and are billed on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Interest on long-term debt is not recorded as an expenditure until its due date.
- c. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In addition, the statement of cash flows includes restricted cash and cash equivalents.

Fixed Assets - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental fund. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Deposits

The Township's cash at March 31, 2004 consists solely of deposits with financial institutions. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,230,000. Of that amount, \$183,419 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Land	\$ 256,405	\$ -	\$ -	\$ 256,405
Buildings	764,985	-	-	764,985
Equipment	59,323	-	1,200	58,123
Total	<u>\$ 1,080,713</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 1,079,513</u>

Township of Sylvan

Notes to Financial Statements March 31, 2004

Note 3 - Capital Assets (Continued)

All proprietary fund fixed assets at March 31, 2004 consist of construction in progress related to the construction of the Washtenaw County-Sylvan Township Water and Wastewater System.

Note 4 - Long-term Debt

Outstanding Debt

The following is a summary of the outstanding debt of the Township:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Enterprise Fund - Water and Sewer - Contractual obligations with Washtenaw County - General Obligation Bonds	1	3.75%-6.75%	2022	\$ 12,100,000
General Long-term Debt Account Group - Landfill postclosure costs	1	N/A	2024	<u>80,000</u>
Total primary government				<u>\$ 12,180,000</u>

The contractual obligations represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At March 31, 2004, there is \$8,174,131 of special assessments receivable in the future. Under Michigan law, Act 185, Public Acts of Michigan 1957, as amended, the Township has pledged its full faith and credit for payment of these bonds.

Note 4 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Township for the year ended March 31, 2004:

	Primary Government		
	Long-term Debt Account Group	Enterprise Fund - Water and Sewer Fund	Total
Balance - April 1, 2003	\$ 272,744	\$ 12,500,000	\$ 12,772,744
Changes in landfill postclosure care costs	(4,000)	-	(4,000)
Principal payments on bonds payable for water and sewer project	-	(400,000)	(400,000)
Principal payments on Act 99 installment purchase agreements	<u>(188,744)</u>	<u>-</u>	<u>(188,744)</u>
Balance - March 31, 2004	<u>\$ 80,000</u>	<u>\$ 12,100,000</u>	<u>\$ 12,180,000</u>

Interest

Total interest expense for the year was \$568,584. Of this amount, \$562,896 was capitalized in the Enterprise Fund.

Note 4 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service the debt outstanding of the primary government as of March 31, 2004, including both principal and interest, are as follows:

Years Ending March 31	Amount
2005	\$ 953,646
2006	938,146
2007	923,146
2008	1,006,271
2009	986,585
2010-2014	4,914,835
2015-2019	4,871,527
2020-2023	3,736,500
Total	<u>\$ 18,330,656</u>

Landfill Postclosure Care Costs

The Township has entered into an agreement with the City of Chelsea (the "City") to pay 6.75 percent of certain future costs that the City may incur in connection with the monitoring and remediation of the City's closed landfill site. This activity is being directed by the Michigan Department of Environmental Quality. State and federal laws and regulations require the City of Chelsea to perform some remediation to the landfill site and to place a final cover on the landfill as it no longer has capacity to accept solid waste. Additionally, the City is required to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. As of February 28, 1995, all costs of closure have been incurred. Future monitoring costs are estimated by the City to approximate \$60,000 per year. The Township's share is approximately \$4,000 per year. The cost attributable to the remaining 20 years has been recorded in the General Long-term Debt Account Group.

Note 5 - Restricted Assets

Restricted assets at March 31, 2004 consist of cash restricted for the construction of the Washtenaw County-Sylvan Township Water and Wastewater System. The restricted assets result from the issuance of debt and the collection of special assessments held by the Trust and Agency Fund. A summary of the restricted assets as of March 31, 2004 is as follows:

Proceeds from issuance of long-term debt	\$ 83,262
Due from Trust and Agency Fund	<u>1,036,685</u>
Total restricted assets	<u>\$ 1,119,947</u>

Note 6 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Budget Information

The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2004 has not been calculated. The budget was amended during the year.

The budget statement (combined statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Township Board is included in the general purpose financial statements. This comparison includes expenditure budget overruns. All expenditures were approved by the Board; however, formal budget amendments were not adopted for any of the various budget overruns.

Township of Sylvan

Notes to Financial Statements March 31, 2004

Note 7 - Budget Information (Continued)

Significant expenditure budget overruns were as follows:

Type of Expenditure	Budget	Actual	Variance Favorable (Unfavorable)
Legal	\$ 50,000	\$ 68,483	\$ (18,483)
Office expense and miscellaneous	11,850	26,720	(14,870)
Planning, zoning, and engineering fees	86,000	122,717	(36,717)
Fire protection	150,000	192,304	(42,304)
Debt administration	110,000	188,744	(78,744)

Note 8 - Defined Contribution Retirement Plan

The Township provides pension benefits for all its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become participants in the plan immediately. Employees may make voluntary contributions up to the lesser of \$7,500 or 33.3 percent of the employee's includable compensation. The Township has committed to and is currently making contributions totaling 7.65 percent of includable compensation. Full vesting takes place immediately for all contributions and related account earnings. The Township contributed \$6,372 during the current year, and employees contributed \$13,290.

Note 9 - Joint Venture

The Township is a member of the Chelsea Area Fire Authority, which provides services to the residents of the Township of Sylvan, the Township of Lima, the Township of Lyndon, the Township of Waterloo, and the City of Chelsea. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$192,300 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Fire Authority can be obtained from the administrative offices at 200 West Middle, Chelsea, Michigan 48118.

Note 9 - Joint Venture (Continued)

The Township is a member of the Chelsea Area Construction Agency (the "Agency"), which serves the Township of Sylvan, the Township of Lima, the Township of Lyndon, the Township of Sharon, the Township of Dexter, and the City of Chelsea. The Agency provides construction application services for the residents of these communities. The Agency is self-supporting. The Township does not receive any revenue from the Agency's results of operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Construction Agency can be obtained from the administrative offices at 18027 Old U.S.12, Chelsea, Michigan 48118.

The Township is a member of the Sylvan Township Water and Sewer Authority (the "Authority"). The Authority is currently overseeing the construction of a water and wastewater treatment plant and sewer system. Upon completion, the plant and sewer system will provide services to the residents of the Township of Sylvan, the Township of Lima, and the Township of Lyndon. The board of the Authority consists of three representatives from the Township of Sylvan and one representative each from the Township of Lima and the Township of Lyndon. During the construction process, the Township of Sylvan is providing financial support for the construction. The Township of Sylvan is receiving reimbursements for expenses through state grant funding. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The Township is a member of the Western Washtenaw Recycling Authority (the "Recycling Authority"), which serves the Township of Sylvan and other local municipalities. The Recycling Authority provides recycling services for the residents of these communities. The Recycling Authority is self-supporting. The Township does not receive any revenue from the Recycling Authority's results of operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Western Washtenaw Recycling Authority can be obtained from the administrative offices at 8025 Werkner Road, Chelsea, MI 48118.

Township of Sylvan

Notes to Financial Statements March 31, 2004

Note 10 - Prior Period Adjustment

The Enterprise - Water and Sewer Fund's contributed capital at the beginning of fiscal year 2004 has been adjusted for correction of an error regarding a special assessment district amount that should have been recorded as contributed capital for the year ended March 31, 2003 as follows:

Description	Amount
Additional contributed capital	<u>\$ 496,000</u>

Had the error not been made, contributed capital for the Enterprise - Water and Sewer Fund at March 31, 2003 would have been \$10,790,100.

Note 11 - Contingencies

As a result of a public referendum, the Village of Chelsea became the City of Chelsea as of March 8, 2004. As a result of this referendum and incorporation, the City of Chelsea may be entitled to a portion of assets currently held by Sylvan Township. The Township is currently addressing this matter with the City. At this time, the Township is unable to quantify the amount, if any, due to the City.

Note 12 - Subsequent Event

On September 1, 2004, general obligation bonds totaling \$5,115,000 were issued to finance construction on the water and sewer system. Of this amount, the Township will be responsible for 43.33 percent of the resulting debt service. The remaining liability is the responsibility of another community.

Note 13 - Upcoming Reporting Change

For the year beginning April 1, 2004, the Township plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Enterprise Funds will no longer report capital contributions as a direct increase to equity. Information is not available to present pro forma data that would show the effect of this future change.

Additional Information



Plante & Moran, PLLC

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To the Members of the Township Board
Township of Sylvan
Washtenaw County, Michigan

We have audited the general purpose financial statements of the Township of Sylvan for the year ended March 31, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Township of Sylvan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

May 14, 2004

Township of Sylvan

Schedule of Indebtedness March 31, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding
Enterprise Fund Obligations				
Contractual obligation with Washtenaw County				
Sylvan Township, County of Washtenaw				
Water and Wastewater Improvement Bonds Series 1991				
Date of issue - September 1, 2001				
Amount of issue - \$12,500,000				
	4.000	05/01/04	\$ 400,000	\$ 400,000
	3.750	05/01/05-06	400,000	800,000
	3.750	05/01/07	500,000	500,000
	4.125	05/01/08	500,000	500,000
	6.750	05/01/09	500,000	500,000
	4.750	05/01/10	600,000	600,000
	4.200	05/01/11	600,000	600,000
	4.300	05/01/12	600,000	600,000
	4.400	05/01/13	600,000	600,000
	4.500	05/01/14	700,000	700,000
	4.700	05/01/15	700,000	700,000
	4.800	05/01/16	700,000	700,000
	4.875	05/01/17	700,000	700,000
	4.875	05/01/18	800,000	800,000
	5.000	05/01/19-20	800,000	1,600,000
	4.750	05/01/21-22	900,000	1,800,000
Total Enterprise Fund obligations				<u>\$ 12,100,000</u>

May 14, 2004

Members of the Township Board
Township of Sylvan
18027 Old U.S. 12
Chelsea, MI 48118

Dear Members of the Township Board:

We have recently completed our audit of the financial statements of the Township of Sylvan for the year ended March 31, 2004. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration.

STATE REVENUE SHARING

As you are well aware, the slow down in the State's economy continues to directly affect the General Fund. State Shared revenue accounts for approximately 27.5% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, revenue sharing payments for the State's upcoming fiscal years are less than originally projected. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

To assist the Township in projecting state shared revenue payments, the Michigan Department of Treasury website is located at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp>. The only information required is the name of the local unit and its county.

We encourage the Township to monitor the revenue sharing projections posted on the State's website and consider whether a budget adjustment will be necessary.

PLANNING FOR THE FUTURE

With the loss of revenue that will occur with the Village of Chelsea becoming a city, it is imperative that the Township closely monitors revenues and expenditures as compared to budget. During the current year, several expenditures exceeded their budget, a violation of Michigan law. These included legal, office expenses, planning and zoning, fire protection, and debt administration. We encourage the Township to monitor the budget carefully and to make the necessary budget amendments during the year.

The Township's contributions to the Chelsea Area Fire Authority have nearly doubled over the past five years from \$96,847 in 1999 to \$192,304 in 2004. The 2004 contributions make up nearly a quarter of the Township's total expenditures. With the loss of revenue resulting from

Members of the Township Board
Township of Sylvan

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the Village of Chelsea becoming a city, the Township's ability to make the required contributions to the Fire Authority will be limited. We do congratulate the Township's administration for the foresight in their planning that resulted in the repayment of the Act 99 installment purchase agreements.

To aid the Township in planning for the future, we again encourage the Township to develop a five year financial plan. The plan would address financial areas including, but not limited to, new forms of revenue, decrease or control of expenditures, future capital expenditures, and debt administration. Plante & Moran will be available to the Township board and administration to provide any assistance in assembling this plan.

OFFSITE STORAGE OF COMPUTER RECORDS

Virtually all of the Township's financial records are maintained on computer diskettes that are updated periodically. We recommend that duplicate copies of critical information be made daily and stored at an offsite location so that the Township could more easily recover in the event of a natural disaster.

ADDITIONAL SUGGESTIONS

During the past few years, the Township has been operating a water and sewer fund which has created some additional reporting and recording challenges. The township should consider a separate bank account to be used solely for the activity of the water and sewer fund. In addition, the Township should consider creating a special assessment spreadsheet to be used to keep track of every parcel, assessment, and subsequent collection. This would allow the Township to have updated assessment information at their finger tips at all times. We would be happy to assist in the creation of this schedule.

During the past few years, the Township has suffered from recurring computer software issues that have resulted in substantial loss of data or inaccurate recording of financial information. The time and expense that was required to recreate this lost data was not insignificant. We encourage the Township to seek help and consultation from their software provider in order to understand the source of the problems and to prevent a reoccurrence.

The Township still has not adopted several policies required by Michigan Public Acts, including an investment policy, credit card usage policy and an ACH (wire transfer) policy. In addition, with the upcoming implementation of GASB 34, the Township should consider establishing a capitalization policy as well. These policies should be formalized and approved by the Township board immediately and we would be happy to provide examples of each of these policies.

NEW FINANCIAL REPORTING MODEL

As we discussed in previous years, the GASB has finalized its new financial statement reporting model. Some of the changes in this model include:

- A "Management's Discussion and Analysis" section

Members of the Township Board
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- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There will be two columns, one for government activities and one for enterprise activities
- A new definition of enterprise activities (probably any activity that charges its users a fee that is intended to finance the majority of operating costs)
- Capital assets and their related depreciation will be reported

It would be an understatement to say that this new reporting model will have a significant impact on the Township's finance department. The new reporting model calls for implementation by the Township in the year beginning April 1, 2004.

Recently, the Township took inventory of its capital assets and created We encourage the Township to update the listing annually. This may also be useful for insurance purposes, both in substantiating a property claim and for ensuring the appropriate limit of property insurance.

Plante & Moran will be available to the Township board and administration to provide any education necessary related to understanding the new statements. We would be happy to meet with the board, at whatever time is convenient for you, to educate you about this new pronouncement and the impact it will have on the Township, its staff and its resources.

We would like to thank the entire Township staff, particularly LuAnn Koch and Arlene Grau, for the cooperation and assistance we received in completing this year's audit. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek



Brian J. Camiller